AMERICAN EAGLE PETROLEUMS LTD.

ANNUAL REPORT 1972

to the discovery. A 320-acre Crown Lease (American Eagle interest 33.75%) was purchased in December and a second follow-up well is now drilling offsetting this lease.

Guernsey & Muskingum Counties, Ohio

The Company's 5 gas wells in Guernsey County are on production. Some production problems have been encountered in 2 of these wells but measures are being taken to reduce these difficulties. The drilling of 2 offsetting wells on Company leases in Muskingum County is now underway by a third party at no cost to the Company. American Eagle retains the right to a 50% working interest by paying the completion costs.

Financial

Your Company's year-end has been changed from March 31st to December 31st. As a result, the Company's Annual Report and financial statements at December 31st, 1971, will be mailed to shareholders early in April, 1972.

* * *

Your Company will continue to develop an aggressive drilling program in 1972 and is negotiating with drilling funds for financial support so that this program can be expanded at nominal cost to the Company.

Robert L. Bell,
President.

#2250 Three Calgary Place
355 - 4th Avenue S.W., Calgary 1, Alberta

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American Eagle Petroleums Ltd.

INTERIM REPORT

February 15, 1972

To the Shareholders:

The following are the major developments of your Company since the last report to shareholders:

- An underwriting of 1,500,000 shares was completed which added $1,350,000 to the Company's treasury.
- In 1971 and to the date of this report American Eagle participated in drilling 17 wells, resulting in 14 oil wells (11 oil producers at Zama, an oil discovery at Grand Forks and an oil discovery and a development well at Huntoon).
- The outstanding shares of Cenpet Exploration Ltd. were acquired which will add approximately $100,000 per year to the Company's income.

Zama, Alberta

American Eagle's drilling program in the Zama area resulted in 11 oil producers out of 11 wells drilled. Nine of these wells produced a gross 55,000 barrels in December and the other 2 wells are now on production. The Company is participating in a further 3-well drilling program, 2 of which are now drilling, with an additional 2 optional locations that may also be included. American Eagle holds a 10% interest in these Zama wells.

In addition to the oil reserves, the majority of these wells also have gas reserves in the Slave Point and Sulphur Point formations. Negotiations to sell this gas are in progress.

Grand Forks, Alberta

The Company holds a 25% interest in an oil discovery drilled in this area in December. The discovery well has produced at a rate of 100 barrels per day for the last 7 weeks. Two follow-up wells resulted in dry holes due to the erratic nature of the producing formation which is located in an ancient river bed. However, because of the excellent results in the discovery well, additional drilling is planned on the Company's 2,880 gross acres in the area.

Penhold, Alberta

The Company participated (12½% interest) in a dry hole drilled on a gas prospect in the Penhold area. While the results of the well were disappointing, the Company earned an interest in 2,800 acres of land which include marketable gas reserves. Additional acreage is being acquired prior to drilling a follow-up well proposed for this summer.

Chauvin, Alberta

Your Company purchased interests varying from 8.75% to 12.5% in 4,800 acres of gas acreage containing an estimated 20 billion cubic feet of gas and 3 shut-in gas wells in this area. Negotiations are being carried out to acquire additional acreage. It is anticipated that these reserves will be marketed by late 1972.

Huntoon, Saskatchewan

American Eagle holds a 45% interest in an oil discovery drilled in the Huntoon area late last year and a 42% interest in a successful oil well that was drilled as a step-out

AMERICAN EAGLE PETROLEUMS LTD.

OFFICERS & DIRECTORS

Gerhard Kasdorf, Calgary, Alberta
President & Director

Harold M. Burgess, Calgary, Alberta
Secretary-Treasurer & Director

Peter E. Thuringer, Regina, Saskatchewan
Director

Ronald Ward, Calgary, Alberta
Director

Head Office
2250 Three Calgary Place, 355 - 4th Avenue S.W., Calgary, Alberta T2P 0J1

Subsidiary Companies
American Eagle Petroleums, Inc.
Gull Oil & Gas Ltd.
Mer-Mak Explorations Ltd.
Tide Lake Petroleums Ltd.

Auditors
Peat, Marwick, Mitchell & Co., Calgary, Alberta

Legal Counsel
Burgess and Loucks, Calgary, Alberta

Banker
The Royal Bank of Canada, Calgary, Alberta

Registrars and Transfer Agent
Guaranty Trust Company of Canada, Calgary, Alberta
Montreal, Toronto, Winnipeg, Regina, Vancouver

Stock Exchange Listings
Calgary Stock Exchange
Canadian Stock Exchange

STATISTICAL SUMMARY

	December 31 1972 (Twelve Months)	December 31 1971 (Nine Months)
Gross Income (after royalties)	$ 337,939	$ 137,410
Net Loss	153,623	114,485
Loss per share	5¢	6¢
Shares Outstanding	4,122,212	3,043,303
Gross Wells Drilled		
Oil	7	13
Gas	7	–
Dry	7	3
Net Wells Capable of Production		
Oil	8.9	6.6
Gas	12.0	5.8
Net Reserves		
Oil – Proved (barrels)	1,605,000	1,617,000
Gas – Proved and Probable (million cubic feet)	74,000	6,000
Non-Producing Property Interests		
Gross Acres	1,964,444	2,312,938
Net Acres	139,143	396,155
Number of Shareholders	853	643

DIRECTORS' REPORT TO THE SHAREHOLDERS

We are pleased to present your Company's Consolidated Financial Statements for the year ended December 31, 1972 and a review of its operations during this period.

Revenue increased to $337,939 in 1972 from $137,410 in the nine months ended December 31, 1971. The net loss in 1972 was $153,623 or 5¢ per share compared with a net loss of $114,485 or 6¢ per share in 1971. The financial statements are reviewed in greater detail in the Financial Section of this report which also includes an explanation of the full cost method of accounting which has been adopted by the Company.

1972 was an active operating year for the Company during which it participated in drilling 21 wells, including 7 gas wells and 7 oil wells and increased its net oil production to 128,000 barrels.

The most significant development in the Company's 1972 operations was the acquisition of 58 net billion cubic feet of proved and probable shallow gas reserves in southeastern Alberta through the purchase of Mer-Mak Explorations Ltd. These new reserves are now being developed and should prove a major asset to the Company in view of anticipated increases in natural gas prices.

This acquisition and the new reserves developed in 1972 increased the estimated discounted present worth of your Company's oil and gas reserves from $2,612,000 at the previous year-end to $10,933,000 at December 31, 1972.

In addition, a 700,000-share underwriting was completed in December, 1972 in order to reduce the bank loan incurred to complete the gas reserve acquisition and to provide current operating funds.

In 1972, American Eagle shares were listed for trading on the Canadian Stock Exchange in Montreal and the Company filed a Registration Statement with the United States Securities and Exchange Commission under the Securities Exchange Act of 1934. These steps were taken to facilitate the trading of the Company's shares in both Canada and the United States.

During the year, Peter M. Mathieson, Robert L. Bell and Alton O. Riley resigned from the Board of Directors due to other business commitments. We wish to acknowledge their contribution to the Company as members of the Board. The Board of Directors has been reduced to 4 members.

The Company will continue to initiate new oil and gas prospects in Western Canada during 1973 while its Bassano and Tide Lake reserves are being developed by a third party who will earn an interest in these properties. It is expected that income from these reserves should begin in 1974.

We anticipate that the 1973 financial results will show an improvement over 1972 as a result of increased revenue this year and a reduction from the unusually high costs incurred in 1972.

The development of your Company's increased gas reserves, the evaluation of our geologically attractive acreage and our participation in new prospects will require substantial amounts of exploration and development funds. In the next few months your Company will be reviewing various methods of financing these programs.

On behalf of the Board of Directors

G. Kasdorf

G. Kasdorf
President

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On behalf of the Board of Directors

G. Kasdorf

G. Kasdorf
President

OPERATIONS

PRODUCTION

Net oil production in 1972 increased to 128,000 barrels (350 barrels per day) from 40,500 barrels (111 barrels per day) in the previous 9 months. Production from 7 new oil wells, 3 in the Zama-Virgo area and 2 in each of the Huntoon and East Dollard areas accounted for this increase.

Gas production in the year totalled 90 million cubic feet from the Company's Ohio properties. Initial gas production from the South Chauvin Unit in Alberta began on March 1, 1973.

RESERVES

Net proved recoverable oil reserves at December 31, 1972 were estimated at 1,605,000 barrels. This slight decrease from the reserves of 1,617,000 barrels at the previous year-end was the result of the new reserves discovered in 1972 being offset by 1972 production and revisions in the calculations of the Zama reserves.

Net recoverable proved natural gas reserves increased to 56 billion cubic feet and the proved and probable reserves to 74 billion cubic feet. This compares with proved and probable reserves of 6 billion cubic feet at the previous year-end.

The reserve estimate was prepared by the independent consulting firm of Grant Trimble Engineering Ltd.

DRILLING

During 1972, the Company participated in drilling 21 wells which resulted in 7 gas producers (2.2 net), 7 oil producers (1.3 net) and 7 dry holes (2.2 net).

In the Zama-Virgo area of northern Alberta, the Company drilled 5 wells in 1972 resulting in 3 oil wells and one dry hole (American Eagle 10%) and one gas well (American Eagle 20%).

The Company drilled an additional 2 oil producers in the Huntoon area in southeast Saskatchewan to bring its interests in this field to 4 gross oil wells equivalent to 1.66 net wells.

The Company owns a 9.2583% interest in the East Dollard Unit in southwest Saskatchewan in which 2 additional oil wells were drilled in 1972 to increase the unit's wells to 9 oil producers.

American Eagle farmed out the drilling of 3 gas wells on Company acreage in Ohio in 1972 while retaining a 50% interest in 2 of these wells and a

3½% gross overriding royalty interest in the third well.

The Company also holds interests in 2 gas wells drilled at Bassano and a single gas well drilled at Aerial, all in Alberta.

American Eagle participated in drilling 7 dry holes in the Rainbow, Chauvin, Aerial, Tangent, Wood River and Watelet areas, Alberta and the Hitchcock area, Saskatchewan. Several of these wells encountered encouraging shows and the Company has retained the acreage interests in these areas that it earned by drilling.

EXPLORATION & DEVELOPMENT

Mer-Mak Explorations Ltd.

In October 1972, your Company completed the acquisition of the outstanding shares of Mer-Mak Explorations Ltd. for 150,000 Company shares and $583,305 in cash. The previous Mer-Mak shareholders agreed to leave the amount of $150,216 owing to them as a shareholders' loan which would not be called for 2 years. In the same transaction, American Eagle acquired the outstanding shares of Tide Lake Petroleums Ltd. for 51,500 Company shares and $41,202 in cash.

The assets acquired in the Mer-Mak purchase include major proved and probable gas reserves in the Bassano and Tide Lake areas of southeast Alberta, plus acreage holdings in the Manyberries and Aden areas in Alberta and the Kindersley area, Saskatchewan. The assets acquired from Tide Lake consist of carried interests of 6⅔% in the Bassano reserves and 6% in the Tide Lake reserves.

The development of these reserves will require the drilling of up to 14 wells on the Bassano lands and 44 wells on the Tide Lake acreage in addition to the installation of necessary production facilities and pipelines. This development work has been farmed out to Great Basins Petroleum Co. who will carry out the work required to prepare the reserves for market in return for 50% of American Eagle's interest.

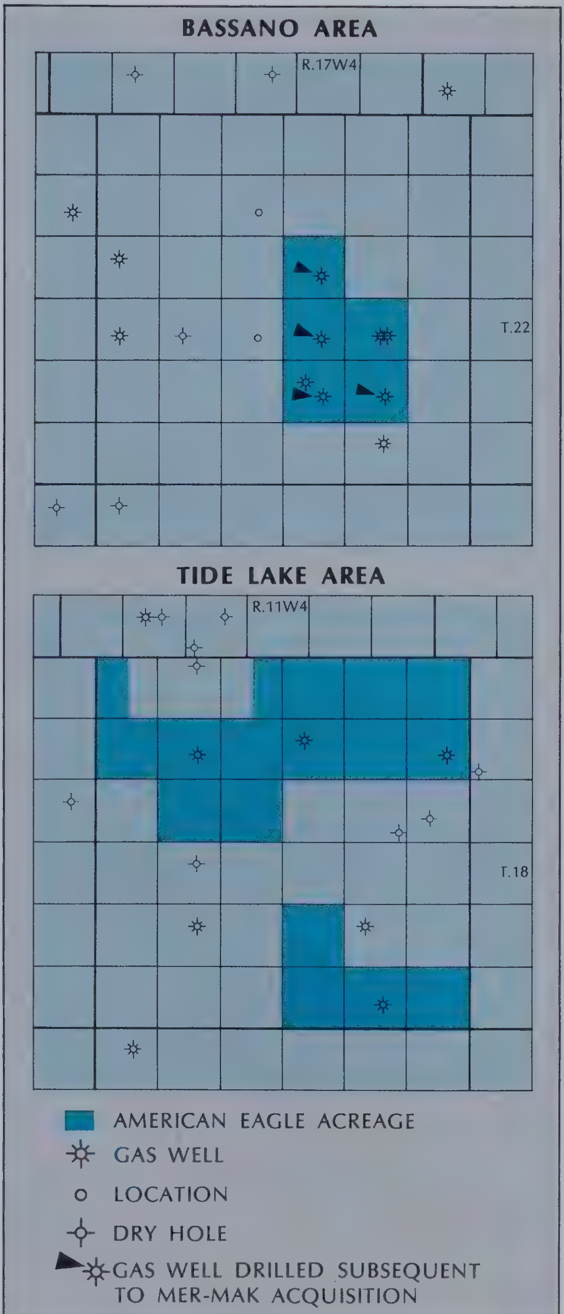
Great Basins drilled the first of its wells on the Bassano acreage late in 1972 and expects to have this property on stream by 1974. The development of the Tide Lake property is scheduled for 1974 but could be advanced if market conditions so warrant.

Blackfoot, Alberta

The Company farmed out to Great Basins Petroleum Co. the drilling of the 3 commitment wells under a 45,500-acre farmout from PanCanadian Petroleums Limited in the Blackfoot area, 50 miles east of Calgary.

By drilling the first 3 wells, Great Basins earned a 100% interest in the spacing unit on which each well is located. In addition, American Eagle and Great Basins each earned a 25% interest in approximately 7,680 acres of lease on the completion of these wells.

The first of the Great Basins wells was completed as a gas producer from the Glauconite zone with an absolute open flow of 50 million cubic feet per



day. The second well encountered encouraging but non-commercial gas shows in the Medicine Hat and Milk River formations and was abandoned. The third well has been completed as a commercial gas producer in the Viking formation after testing gas shows in three potential formations.

Offshore East Coast

A marine seismic program was carried out in 1972 on the 968,701 acres of Labrador offshore permits in which American Eagle holds a 6.105% working interest. Several prospective structures were identified by this program. The Company will participate for its 6.105% interest in approximately $100,000 of further work to be carried out in 1973 on these lands to follow up last year's work and to keep the permits in good standing.

The 735,837 acres of offshore permits in the Flemish Cap area in which the Company held a 15% interest were farmed out to Mobil Oil. The Company's share of the overriding royalty reserved on the farmout is .45%. Mobil is responsible for continuing the exploration work on these permits to meet the work requirements necessary to keep them in good standing.

Three blocks of permits in the Scotian Shelf, Southeast Nova Scotia and Newfoundland West areas were surrendered last year as their immediate prospects did not justify the expenditures required to renew the permits.

Kirkella, Manitoba

On July 1, 1972, the Company sold its interests in 8 producing oil wells in the Kirkella area for $34,000. This sale was made as a result of declining production rates and increasing operating costs on these properties.

E.P.C. Corporation

E.P.C. Corporation of Denver, Colorado, in which the Company holds a 40% interest is testing a radiometric device for use in oil and gas exploration. E.P.C. has entered into an agreement with Radiometrics Exploration Inc. which provides that this equipment would be used on an exploration program at no cost to E.P.C. In return, E.P.C. is to receive a 5% overriding royalty in any surveyed prospect drilled by Radiometrics in the first year, 50% of any interest earned by Radiometrics in any surveyed prospect in the second year and 25% of any Radiometrics interest earned in the third and subsequent years.

FINANCIAL

The 1972 financial statements presented in this report are stated on the full cost method of accounting and the 1971 figures have been restated on the same basis for comparison.

Under full cost accounting, all exploration, development and related expenditures are capitalized as costs necessary for the finding and developing of reserves. As reserves are subsequently produced, the costs are written off on a unit of production basis. The Company has restated its accounts on a full cost basis retroactively from April 1, 1955, prior to which the Company did not have any significant production. Such restatement ensures that current reserves are being charged with the cost of finding and developing oil and gas currently being produced.

Full cost accounting is the method used by most Canadian oil and gas companies. By reporting our financial results on this basis, we will enable our shareholders to more readily compare our financial statements with those of similar Canadian companies.

Revenue for the year ended December 31, 1972 increased to $337,939 from $137,410 for the 9 months ended December 31, 1971. The 1972 operations resulted in a net loss of $153,623 or 5¢ per share compared with a net loss of $114,485 or 6¢ per share in 1971. The 1972 loss resulted from unusually high administrative costs involved in the special applications and financing, increased interest expense and a mining claim write-off.

The increase in the Company's long-term debt reflects the acquisition of the Mer-Mak gas reserves, and was partly offset by the conversion of $98,000 of 8% Convertible Notes. A total of $17,500 of these Notes has been converted to date in 1973.

In December 1972, American Eagle completed a 700,000-share offering at a price of $1.00 per share which resulted in the Company receiving $653,000 after underwriting expenses. These funds were used to reduce the outstanding bank loan and to provide operating capital.

We anticipate a reasonable increase in revenue in 1973 (although production from our major gas reserves will not make any substantial contribution this year) and an improvement in our net loss position as many of the 1972 costs were of a non-recurring nature.

In addition to the increases anticipated from higher production, the Company's revenues will also benefit from increased product prices. The growing energy shortage in North America has already affected crude oil prices in Western Canada which have increased approximately 55¢ per barrel since January 1, 1972 and will affect natural gas prices in the immediate future. However, these increased prices will only partially offset increased royalty rates and substantially higher costs of drilling and developing new reserves which in the past decade have risen at a rate far exceeding the nominal product price increases in the same period.

AMERICAN EAGLE PETROLEUMS LTD.

CONSOLIDATED BALANCE SHEET

December 31, 1972
(with comparative figures for 1971)

ASSETS

	1972	1971 (As restated)
Current assets:		
Cash and term deposits	$ 284,709	$ 401,684
Accounts receivable	195,226	193,904
Total current assets	479,935	595,588
Investment in E.P.C. Corporation:		
Shares at cost (no quoted market value) (note 7)	80,929	80,929
Advances	10,560	–
	91,489	80,929
Property and equipment, at cost (notes 2 and 3)	3,779,968	2,494,960
Less accumulated depreciation and depletion	294,864	494,060
	3,485,104	2,000,900
Refundable deposits	36,125	22,676
	$4,092,653	$2,700,093

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
Current liabilities:		
Accounts payable	$ 172,119	$ 269,982
Accrued interest	13,311	16,000
Long-term debt – current portion (note 3)	16,000	5,000
Total current liabilities	201,430	290,982
Long-term debt (note 3)	1,344,216	695,000
Shareholders' equity:		
Capital stock (note 4):		
Common shares without nominal or par value:		
Authorized 5,000,000 shares; issued 4,122,212 shares (1971 – 3,043,303 shares)	3,086,043	2,073,634
Deficit (note 1)	539,036	359,523
	2,547,007	1,714,111
Commitments and contingencies (note 5)		
On behalf of the Board: GERHARD KASDORF, Director; H. M. BURGESS, Director		
	$4,092,653	$2,700,093

See accompanying notes.

AMERICAN EAGLE PETROLEUMS LTD.

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1972
(with comparative figures for the nine months ended December 31, 1971)

	1972	1971 (As restated)
Revenue:		
Oil and gas sales	$ 332,085	$ 132,868
Interest and other income	5,854	4,542
	337,939	137,410
Expenses:		
Production	114,337	58,836
Engineering and geological	14,504	12,407
Mining claims written off	30,000	–
Administration	175,200	88,999
Interest:		
Long-term	66,001	29,035
Other	1,976	5,891
Depreciation	9,114	5,567
Depletion	80,430	51,160
	491,562	251,895
Loss for period (note 1)	$ 153,623	$ 114,485
Loss per share based on weighted average of shares outstanding during the period. The effect on the loss per share assuming the issue of all the shares reserved for issue at year end, is anti-dilutive.	$ 0.05	$ 0.06

See accompanying notes.

CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31, 1972
(with comparative figures for the nine months ended December 31, 1971)

	1972	1971 (As restated)
Balance at beginning of period as previously reported	$ 652,260	$ 381,245
Adjustment of prior years' figures (note 1)	292,737	229,075
As restated	359,523	152,170
Expenses on issue of common shares	25,890	92,868
Loss for period	153,623	114,485
Balance at end of period	$ 539,036	$ 359,523

See accompanying notes.

AMERICAN EAGLE PETROLEUMS LTD.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1972
(with comparative figures for the nine months ended December 31, 1971)

	1972	1971 (As restated)
Funds provided:		
Proceeds from issuance of share capital	$1,012,409	$1,433,000
Proceeds on sale of 8% convertible notes	–	400,000
Bank loan	919,000	435,000
8% promissory notes	150,216	–
Proceeds on sale of marketable investment	–	31,800
Proceeds on sale of property and equipment	46,732	2,022
Total funds provided	2,128,357	2,301,822
Funds used:		
Net loss for period	153,623	114,485
Less charges not requiring cash expenditure:		
Mining claims written off	30,000	–
Depreciation	9,114	5,567
Depletion	80,430	51,160
Other	–	1,890
	119,544	58,617
Funds used in operations	34,079	55,868
Advances to E.P.C. Corporation	10,560	–
Bank loan	322,000	340,500
Investment in shares of E.P.C. Corporation	–	80,929
Purchase of property and equipment	1,650,480	1,370,368
Increase in refundable deposits	13,449	11,461
Expenses on issue of common shares	25,890	92,868
Repayment of notes	–	49,945
Conversion of 8% convertible notes	98,000	–
Total funds used	2,154,458	2,001,939
Increase (decrease) in working capital	$ (26,101)	299,883
Working capital, end of period	$ 278,505	$ 304,606

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1972

1. Accounting Principles:

The consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries, Gull Oil & Gas Ltd., American Eagle Petroleums, Inc. (incorporated August 30, 1971), Cenpet Exploration Ltd. (acquired November 19, 1971, liquidated April 30, 1972), Tide Lake Petroleums Ltd. (acquired October 16, 1972) and Mer-Mak Explorations Ltd. (acquired October 16, 1972). The consolidated statement of income includes results of operations of the subsidiary companies from their respective dates of acquisition or incorporation. Where the purchase price of shares of subsidiaries exceeded their net book values, the excess has been allocated to the related assets acquired and additional depletion has been provided accordingly.

The accounts of American Eagle Petroleums, Inc. are maintained in U.S. dollars and have been converted into Canadian dollars in accordance with generally accepted accounting principles.

Prior to 1972 the Company followed the practice of charging exploration costs and lease rentals on undeveloped properties to income as incurred. Non-productive leasehold acquisition and drilling costs were charged to income at the time a project was determined to be non-productive. Depletion of productive leasehold and drilling costs was provided on a unit-of-production basis.

In 1972 the Company adopted the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of productive and non-productive wells and general and administrative expenses directly related to exploration activities. All such costs are being depleted on a composite unit-of-production method based on estimated recoverable reserves. Depreciation on lease and well equipment is provided on a unit-of-production basis. Other assets are depreciated over their estimated useful lives. The change in accounting practice was adopted retroactively to April 1, 1955, prior to which time the Company did not have significant production activity. The retroactive adoption of the full cost method of accounting resulted in a net increase in property, plant and equipment of $292,737 at January 1, 1972, and a corresponding decrease in the previously reported deficit from $652,260 to $359,523.

The adoption of the full cost accounting method has resulted in a decrease in the Company's net loss over that previously reported. The effect of the change in accounting method is set out below:

	Decrease in Net Loss	
	Total	**Per Share**
Nine months ended December 31, 1971	$ 64,000	$0.04
Year ended December 31, 1972	187,000	0.06

2. Property and equipment:

	Cost	Accumulated depreciation and depletion	Net book value
Producing and non-producing petroleum and natural gas rights including development thereon	$3,222,090	$169,507	$3,052,583
Non-producing mining claims	50,400	–	50,400
Well equipment	490,798	123,663	367,135
Office equipment and improvements	16,680	1,694	14,986
	$3,779,968	$294,864	$3,485,104

3. Long-term debt:

	Current	Long-term
8% convertible notes, redeemable July 1, 1976	$ –	$ 302,000
Demand bank loan	16,000	892,000
8% promissory notes due October 16, 1974	–	150,216
	$16,000	$1,344,216

The notes are redeemable in whole or in part at the option of the Company to the date fixed for redemption. The Company has agreed that it will redeem on July 1, 1974 and 1975 one third of the principal amount of the notes outstanding immediately prior to July 1, 1974. In addition, the notes are convertible at any time to the date fixed for redemption into fully paid and non-assessable common shares of the Company on the basis of one share for every $0.80 principal amount of notes.

Although the bank loan is subject to call on demand, under the agreed terms of repayment an amount of $16,000 per month ($192,000 per year) is payable. The loan is secured by a general assignment of accounts receivable and certain petroleum and natural gas properties and production proceeds. Interest is payable at the rate of 1% above the prime rate set from time to time by a Canadian Chartered bank.

4. Capital stock:

The following shares were issued during the year:

	Shares	Assigned value
Cash	700,000	$ 658,000
Purchase of petroleum and natural gas rights	31,833	31,833
Conversion of 8% convertible notes	122,500	98,000
Purchase of subsidiary companies	201,500	201,500
Finder's fee	23,076	23,076
	1,078,909	$1,012,409

Common shares have been reserved for issue as follows:

	Number of Shares
Pursuant to stock options granted to directors at prices varying from $0.95 to $1.20 per share, exercisable at various times to April 30, 1975	175,000
For issuance on exercise of share purchase warrants at $1.50 per share expiring October 22, 1981	300,000
On conversion of the $302,000 8% convertible notes (note 3). Subsequent to December 31, 1972 17,500 common shares were issued pursuant to these conversion rights	377,500
	852,500

5. Commitments and contingencies:

In order to retain its interests in undeveloped oil and gas properties the Company will be required to pay lease rentals which, based on its holdings at December 31, 1972, will amount to approximately $50,000 per annum.

The minimum annual rental on the Company's lease of its office premises, expiring May 31, 1975, amounts to $10,948.

The Company has issued non-interest bearing promissory notes in the aggregate amount of $15,000 as security for certain work obligations.

Mer-Mak Explorations Ltd. has been named defendent in a Supreme Court of Alberta action between Lubicon Petroleum and Mining Ltd. (N.P.L.), Plaintiff, and Mer-Mak Explorations Ltd., Defendent, wherein the Plaintiff has asked for a declaration that it is entitled to an undivided 50% interest in certain petroleum and natural gas rights. The loss of this action would not affect the estimated recoverable reserves used for depletion calculations and the only expense would be the legal fees and costs incurred in defending it.

6. Remuneration of directors and officers:

The aggregate remuneration paid to directors and officers during the year amounted to $46,333.

7. Investment:

The investment in shares of E.P.C. Corporation, at cost, represents 40% of the outstanding capital stock of that corporation for which there is no quoted market value.

The ultimate recovery of this investment is dependent upon E.P.C.'s ability to obtain a return on the funds spent on the research and development of a new technique based on radiometric principles for discovering oil and gas.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of American Eagle Petroleums Ltd. and Subsidiaries as at December 31, 1972 and the consolidated statements of income, deficit and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, subject to the outcome of the matter referred to in note 7 to the consolidated financial statements, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of affairs of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period as restated (note 1). All the transactions of the companies that have come within our notice, in our opinion, have been within the objects and powers of the companies.

Calgary, Alberta
April 24, 1973

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

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